

**Statement of Ann M. Veneman
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Before the House Committee on Agriculture
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Mr. Chairman, Members of the Committee, I appreciate the opportunity to appear before you today with Ambassador Zoellick to discuss food and agricultural trade.

The importance of exports to our agricultural industry cannot be overstated. Exports solidly underpin farm income and support 888,000 American jobs, of which 40 percent are in rural areas. Each \$1 billion in agricultural exports supports, on average, 15,000 jobs – on farms, facilitating trade, in processing and manufacturing, and transporting commodities and food products.

Exports At Near Record; Opportunities Abound

I am pleased to report a projected near-record \$59 billion in export sales in Fiscal Year (FY) 2004, which is critical for our producers. In the United States, our agricultural production capacity far exceeds domestic demand. To keep our agricultural economy growing, we must build overseas markets.

The forecast for FY 2004 sales is \$2.8 billion above FY 2003. The discovery of one case of Bovine Spongiform Encephalopathy (BSE) in Washington State has disrupted our exports of beef and certain beef products, valued at \$3.81 billion last year. Without this negative factor, our exports would have easily exceeded the FY 1996 record of \$60 billion.

Agricultural exports have been helped by the U.S. and world economies recovering from the sluggish growth of Calendar Year (CY) 2001 through early 2003. In 2004, gross domestic product (GDP) growth in the United States is forecast to be well over 4 percent, and the world economy is expected to grow about 3.6 percent.

- China is expected to experience rapid and extensive GDP growth of 9 percent.
- Overall growth in developing countries in Asia – led by China, Thailand, and India – is forecast at 6 percent.
- Argentina and Brazil are expected to expand GDP around 4 percent.
- Mexico's GDP is forecast to be up, to 3.8 percent.
- Growth for Russia is forecast at 5.8 percent.
- The overall average for African countries is expected to be 3 percent.
- GDP growth in the European Union (EU) and Japan is forecast to exceed 1 percent.

The world's population is estimated to grow by 25 percent in the next 20 years – an additional 1.4 billion customers, many of whom are located in these countries with expanding economies. As incomes rise for these consumers, their demand for higher-value products will increase, and much of this demand will be satisfied by our farmers and ranchers.

Even today we see the benefits of such growth in the expanding purchases of some of our fastest growing trading partners – Mexico and China. Today, roughly 20 years after joining the international trading community by acceding to the General Agreement on Tariffs and Trade (GATT), Mexico is our third largest export market. Last year, Mexico had the world's seventh largest expenditures on food – \$93 billion – and that was double the amount in 1995. The U.S. has supplied 75 percent of each additional dollar spent on food in that country.

This year marks the 10th anniversary of the North American Free Trade Agreement (NAFTA), the United States' banner trade agreement with Canada and Mexico. There is probably no better example of the success of trade liberalization and trade agreements than NAFTA. If we measure results by growth in sales, access, and market share, NAFTA is working to the advantage of all three countries and has greatly benefited U.S. farmers.

Before NAFTA, U.S. food and agricultural exports to Canada and Mexico together equaled sales to Japan, then our top export market. While sales to Japan are down slightly from 10 years ago, exports to our NAFTA partners this year have increased to more than double the

sales to Japan (or an unprecedented \$17.6 billion to NAFTA partners, versus \$7.8 billion to Japan.)

Looking at each market separately, our exports to Mexico have doubled in the last 10 years, reaching \$7.9 billion. We sell 39 percent more of consumer-oriented products to Mexico now than we did 10 years ago with red meats and processed fruits and vegetables leading the way. And U.S. agricultural exports to Canada have increased fivefold since the implementation of the U.S.-Canada Free Trade Agreement in 1989, making Canada our No. 1 export destination, today valued at \$9.3 billion. U.S. consumer-oriented export sales to Canada have increased by 70 percent in the last 10 years with fresh and processed fruits and vegetables and snack foods best sellers. We expect these trading relationships to grow even further and projected economic growth for our NAFTA trading partners translates to benefits for U.S. producers.

China

China is a very bright spot on our agricultural trade horizon and is expected to be the world's top agricultural growth market over the next decade. In CY 2003, U.S. agricultural exports to China were \$5.0 billion, making it our fifth-largest overseas market. USDA's forecast for U.S. agricultural exports to China, which is done in fiscal years, projects a record \$5.4 billion in agricultural sales to China in FY 2004. This is triple the amount in 2001, when China joined the World Trade Organization (WTO), and accounts for nearly 10 percent of our projected agricultural export sales.

China is now our No. 1 market for soybeans, cotton, and hides and skins, and our sixth-largest market for wheat.

- China purchased \$2.9 billion worth of soybeans in CY 2003, a 200 percent increase over export levels prior to its WTO accession.
- China imported \$737 million worth of cotton in 2003, up by 1500 percent from 2001.

- China purchased a record \$457 million worth of hides and skins, a 15 percent increase over two years.
- And recently China has committed to purchase nearly 3 million tons of U.S. wheat, valued at \$500 million, over this and the next marketing year. China will be our sixth-largest wheat market; this is a tenfold increase from two years ago.

This remarkable upswing in sales to China is due to the increased prosperity that trade has brought to China and the market access the United States negotiated with China as a condition of WTO accession in 2001. As China's economy grows, incomes rise, and its policies become more trade-supportive, we anticipate ever-greater opportunities to supply Chinese consumers with food and agricultural products.

While these trade figures are impressive and encouraging, they do not take away from the fact that China must fully implement the commitments it made upon joining the WTO. The Administration is aggressively working with China to implement its WTO commitments. In the last two years, it has had to modify over 3,000 laws and regulations to comply with its accession agreement. Progress is being made.

On April 21, I participated with Ambassador Zoellick and Secretary Evans in talks with Chinese Vice Premier Madam Wu and a large delegation of high-ranking officials from some 12 ministries. One of our priorities has been encouraging China to adopt internationally recognized, science-based guidelines. An area of focus has been in biotechnology, where we have engaged their policy makers in frequent discussions with ours. China has just approved additional biotech varieties for U.S. corn and canola, adding to those announced in February. We now have approvals for Roundup Ready soybeans, two cotton varieties, six corn varieties, and seven canola varieties. There are two pending corn varieties that Chinese authorities will consider in May.

We also encouraged China to improve its compliance with WTO rules affecting import licenses. It committed to improved transparency and efficiency in its quarantine import permit system, and for licenses to be valid for 6 months rather than three.

We requested that China become active in the World Organization for Animal Health (OIE), to better understand the international guidelines for trade impacted by incidences of animal diseases. It agreed to follow and adopt these, a substantial change in policy.

One of the challenges China faces is becoming familiar with our regulations and procedures as well as improving its capacity to deal with sanitary and phytosanitary issues. To help meet this challenge, I signed a letter of intent to enter into a memorandum of understanding with Chinese Minister Li, who heads the ministry with jurisdiction on these matters. We propose to have professional exchanges, seminars and training, and joint research projects to increase our mutual understanding in these areas. In the long term, increased cooperation and communication will facilitate our trade.

Maintaining Our Current Markets

USDA devotes a great deal of time and diligence to market maintenance, assuring that our trade partners adhere to their WTO commitments and follow sound scientific practices to guarantee food safety. Conversely, when our crops or livestock suffer from disease and trading partners stop importing our products, we must provide them with factual assessments of progress in controlling any outbreak and with the science-based steps that lead to a clean bill of health. We have been challenged this year with diseases reducing our exports of beef and beef products and poultry and related products.

Efforts to Resume U.S. Beef Exports

A top priority has been the reopening of our export markets after the finding of a single, imported case of BSE in Washington State December 23. USDA has a transparent process for

providing information and reassuring the public. It has been very satisfying that demand for beef has not diminished in the domestic marketplace. It demonstrates that Americans have faith in their government's ability to regulate the food supply and to respond swiftly and effectively when food crises arise.

But for trade, we are in uncharted territory that is still evolving. In CY 2003, the United States exported \$3.9 billion of beef and veal, beef variety meats, and processed beef products. About 90 percent of our exports are to Japan, South Korea, Mexico, and Canada. We exported an additional \$3 billion of products such as meat and bone meal, gelatin, cattle semen and embryos, tallow, and pet food to a range of countries.

Very quickly after BSE was discovered in the state of Washington, our export markets were shut off to varying degrees for these items. We are estimating export levels of beef and beef products in the current year to decline 83 percent below CY 2003 levels. Among the most affected items were beef and live cattle exports. Both items remain banned in the majority of the top 10 markets and export values of both declined over 90 percent in the first two months of this year. Exports of meat and bone meal, sausage casings, and fats and greases also declined. Bans on U.S. pet food are mixed and CY exports through February were valued at \$102 million, a decline of nearly 30 percent from average years. On the other hand, U.S. exports of tallow and hides and skins have been up for this time period.

Since immediately after finding BSE, I have personally engaged with my counterparts in foreign governments – in particular Secretary Usabiaga in Mexico, Minister Speller in Canada, Minister Kamei in Japan, and Secretary Lorenzo in the Philippines – to assure them of the safety of our food supply and to work with them toward the resumption of trade. We sent high-level delegations to Mexico and our Asian trading partners on several occasions. The Vice President also raised this matter during his recent trip to Japan, Korea, and China.

Shortly after we found BSE in one cow, USDA announced aggressive actions to further assure the safety of our beef – banning downers from the human food chain, and prohibiting air

injection stunning, mechanically separated beef, and specified risk material from animals over 30 months. We have also moved to accelerate the implementation of a national animal ID program.

One key milestone was the U.S. government's response to the report of an international review team that assessed the BSE situation in the United States. At the recommendation of the review team, USDA ramped up the surveillance of the higher-risk cattle population. We will test a significant proportion of this population with recently approved rapid tests to detect whether BSE is present in the U.S. herd and, if so, at what prevalence.

The re-opening of a market often requires extensive efforts. We are approaching our major export markets, one by one, to personally assure them of our robust safeguards that allow for safe trade in U.S. products. We have informed our key trading partners of the aggressive and extensive measures we have taken against BSE and to request their cooperation in lifting import restrictions on U.S. beef and bovine products. We have hosted technical delegations from Japan and Mexico and expect South Korea will be sending a team shortly. Overseas, our FAS and APHIS staff keep agricultural officials in 90 markets updated on the steps we have taken to assure the safety of our beef products, and have discussions with foreign governments on how to re-open markets.

It is very important that we re-open our top markets as soon as possible. A prolonged delay could result in longer-term diminished demand for U.S. beef, displacement by alternative products, substitution of suppliers, and permanent shifts in consumer-purchasing patterns. It may also have ripple effects on other agricultural sectors, such as the feed grain and oilseed sectors.

We are making some progress. Our second largest beef export market, Mexico, has reopened trade for more than 90 percent of U.S. beef, beef variety meats, veal, and tallow products. In CY 2003, these products accounted for \$1 billion. This is a substantial positive step.

Canada currently permits the entry of beef and beef products from cattle aged 30 months or less, live cattle destined for immediate slaughter, dairy products, and other selected ruminant byproducts.

In January I met with Minister Speller and Secretary Usabiaga to discuss BSE and the policies and regulations that affected trade. We agreed to implement a coordinated North American policy on BSE, to work toward harmonizing our regulations and policies in light of our integrated markets and as a model to our trading partners. This is an on-going process that is actively engaging USDA at senior policy levels. Together, we are encouraging the OIE to further clarify risk classifications based on sound science.

This past weekend, Under Secretary Penn led a policy-level delegation to Japan, and we are very pleased with the progress that was made in our most important beef market. There now is agreement to a process, which we believe will lead to the full resumption of trade in our number one market by this summer. Our experts will begin discussions with their counterparts on technical issues almost immediately.

Poland, Saudi Arabia, and Venezuela also have opened their markets to a variety of U.S. products.

Our experience highlights the importance of increasing awareness of and support for internationally recognized guidelines for trade in products impacted by animal diseases. We have been encouraging countries, at every opportunity, to take the OIE's science-based standards for BSE into account when establishing import conditions for U.S. ruminant animals, beef and other ruminant products.

U.S. Poultry Meat Exports Returning After Avian Influenza Outbreaks

The incidences earlier this year of low pathogenic avian influenza (AI) in the Mid-Atlantic States and then the first U.S. case in 20 years of highly pathogenic AI (HPAI) in Texas have shown how important it is for us to have strong safeguard systems in place. Our transparency and swift response to eradicate these diseases, including the HPAI in Texas, have reassured many of our trading partners of the premium we place on the safety of U.S. food products and control of animal disease.

A substantial amount of U.S. poultry meat and product exports, valued at \$2.3 billion annually, was immediately disrupted by bans. However, about one-fifth of our traditional trade was not. And, foreign governments importing nearly half of our poultry meat exports (valued at \$942 million a year) only banned product from affected areas rather than the entire country, following much more closely the OIE guidelines.

The top two destinations for poultry meat exports, Russia and Canada, continue to allow in product from AI-free states. On April 6, shortly after we announced that HPAI was eliminated from Texas, Canada immediately recognized the U.S. as free of the disease and resumed trade entirely. After numerous discussions with our Mexican counterparts at all levels, Mexico lifted its import bans on selected poultry meat products from non-AI states and recently agreed to discontinue unnecessary testing requirements.

Our focus now is on Hong Kong, China, Japan, and Korea, which accounted for 22 percent, or \$435 million, of the U.S. poultry meat export market in CY 2003, where import prohibitions remain on products from the entire United States.

Earlier this month, Under Secretary Penn met in Beijing and Hong Kong with his counterparts to discuss a variety of issues, including an update on our actions to eliminate HPAI. We are continuing to exchange technical information with their experts, and are

optimistic that trade will be resumed soon. We have invited technical teams to visit our scientists and see U.S. poultry operations and expect these to occur in the coming weeks.

Trade resumption to Japan is covered by a protocol between our nations; trade should resume in June.

Despite these outbreaks, domestic prices have remained strong, thanks in part, to consumption of poultry in high protein diets and tighter world supplies of poultry meat.

The Importance of Trade Liberalization

Besides assuring the economic health and prosperity of our agricultural sector, expanding markets serve the best interests of trading partners in both developed and developing countries. The Bush Administration has mapped out an ambitious course in the pursuit of global trade liberalization.

The United States has stepped up to the plate and taken a leadership role in negotiations, and is keeping the pressure on all members to achieve success. Ambassador Zoellick will discuss our current efforts in detail.

For agriculture, free trade agreements are critical, because they address tariff phase-outs and duty-free, quota-free access for all agricultural products. They also establish mechanisms for easing trade differences, such as SPS issues, that can arise between trading partners.

As trade is opened to farmers around the world, it can also help raise standards of living. As consumers in these countries become more affluent, they will buy more of our products.

Trade Agreements – In the Works and Completed

Important as WTO negotiations are, we have to move forward on many fronts. The bilateral and regional agreements we have negotiated since this Administration took office will give our agricultural producers increased access to 119 million consumers, with a combined annual GDP of \$820 billion. Current agricultural trade with these countries is valued at \$2.8 billion.

Negotiators recently concluded talks for adding the Dominican Republic to the proposed Central America Free Trade Agreement (CAFTA), which includes Guatemala, Honduras, Nicaragua, El Salvador, and Costa Rica. This market of 45 million customers purchased \$1.65 billion worth of U.S. agricultural products last year. Our sales to these countries have been growing at a pace of \$70 million per year.

This FTA levels the playing field, and in many cases, creates preferences for U.S. agricultural exporters over other suppliers, including those in Canada, Europe, and South America. Commodities expected to gain – and in some cases regain market share lost to countries with existing trade preferences – include apples, pears, cherries, corn, rice, soybean products, poultry, beef, and dairy products.

We also concluded negotiations for an FTA with Morocco in March, which covers all agricultural products and offers new opportunities for exports of beef, poultry, wheat, feed grains, and many fruits and vegetables.

The recently completed U.S.-Australia FTA negotiations will give U.S. farm exporters duty-free access from day one to 20 million, high-income consumers. Ambassador Zoellick will tell you more about this year's negotiations with Thailand, Panama, Bahrain, Colombia, Ecuador, and possibly Peru.

We have been implementing two other agreements as well. In our own hemisphere, the free trade agreement (FTA) with Chile provides important immediate tariff reductions for our agricultural exports. In four years, three-quarters of U.S. products will enter Chile tariff-free; after 12 years all products will be duty-free. As a result of technical discussions held in tandem to the FTA negotiations, we also obtained new market access for U.S. citrus, Northwest stone fruit and processed dairy products.

Another recent agreement with Singapore locks in their zero-applied tariffs for agricultural products. U.S. exports to Singapore, now valued at \$266 million, have been rising over the past three years. Organic and other value-added agricultural products from the United States are gaining shelf space in Singapore groceries. Our trade with Singapore is singular because two-thirds of our agricultural exports there are high-value products, a trend that provides our agricultural industry with increased profitability and creates more jobs here at home.

Expanding Opportunity Through Science and Technology

Along with negotiating efforts, USDA is helping developing countries to participate more fully in the trade arena. These countries represent our future growth markets. To help achieve this, we also must commit to the reduction of hunger and poverty around the world. It is a sad irony that acute poverty and hunger are worst in many areas where agriculture is the predominant way of life.

About one billion of the world's poorest people depend on agriculture for their livelihood. Many of them are trapped in a life of subsistence. In many developing countries, 90 percent of the food consumed is locally grown. It follows that people who are hungry are less able to feed themselves and to be productive members of society.

The global ramifications of hunger are hard to overstate, not just for people in the least developed countries, but also in nations with greater wealth. Persistent hunger causes human

suffering and death. It results in lost productivity and the unrealized potential of entire nations and regions. It leads to political instability, economic stagnation, civil unrest, and war. It limits economic growth and trade opportunities in other countries.

A recent analysis by the International Food Policy Research Institute suggests that an annual productivity increase of just three to four percent in Africa would triple per capita incomes. It would reduce the number of malnourished children by 40 percent.

As ministers gathered in Rome two years ago to discuss ways to speed the pace of hunger reduction, there was agreement that science and technology play a key role in accelerating agricultural productivity. It was in Rome that I announced the United States would host a Ministerial Conference on Agricultural Science and Technology, which was held last June in Sacramento, California.

The Sacramento ministerial was a next logical stop on a road that took us through Doha, where developing countries became a major focus of international trade negotiations, to Monterey, Mexico, and the International Conference on Financing for Development, to Rome and the 2002 World Food Summit, and to Johannesburg and the World Summit on Sustainable Development. It was one of the largest and most diverse gatherings ever of decision-makers from around the world to address global hunger with more than one thousand participants, including 119 ministers of agriculture, science and technology, health, environment, and commerce.

We looked at technology's role in helping feed the hungry and provide nutrition to the malnourished and lift those in need out of poverty. The application of science and technology, along with supportive policies, can help achieve all of this by raising agricultural productivity in an environmentally sustainable way. Raising productivity will not merely reduce hunger, it will provide a whole host of additional benefits, including higher incomes and economic growth.

This story has been repeated over and over throughout history, most recently in Asian countries that have been transformed from subsistence economic into powerhouses of manufacturing and high technology. We can make great strides by helping developing countries adopt and develop their own appropriate agricultural technologies, from the conventional to the state-of-the-art.

In order to achieve many of our goals, the building of additional partnerships between and among nations, academia and industry will be critical. The momentum and enthusiasm that were generated in Sacramento are still continuing today. Already we are working to build on these efforts. A Central American regional conference is now scheduled in May in Costa Rica. An African conference will take place in June in Burkina Faso.

The United States is committed to finding solutions to global hunger and poverty. We are by far the largest contributor to the World Food Program, accounting for more than 50 percent of donor funds.

USDA has been working hard in many areas to support that agenda. We help administer the international food-assistance programs, which are budgeted this year at nearly \$1.6 billion. This includes \$50 million for the new McGovern-Dole International Food for Education and Child Nutrition Program for 2004, and the President's FY 2005 budget provides a 50 percent increase in funding. This program is based on a pilot that provided school meals to nearly seven million children in 38 countries. Food for Education not only encourages greater numbers of children to attend school, but it also enhances the performance and learning ability of students in the classroom.

We are also looking for ways in which our experts can help replicate our own successes in the developing world. For instance, our Food and Nutrition Service is providing guidance for domestic food-assistance programs in other countries. The Zero Hunger initiative in Brazil is based on our own Food Stamp program. USDA also has a close partnership with the 1890 Land-Grant Institutions, which are addressing nutrition and food assistance in Africa.

Iraq and Afghanistan

When we consider the need for food security in the world, it is critical to consider the agricultural economies of Iraq and Afghanistan. Last November I traveled to these countries to learn about our current activities in the regions and what more we can do to help.

Overall, we found that people in both countries are tired of conflict, abuse, repression, insecurity and neglect. They are eager to build better lives for themselves and thankful for the opportunity for stability and normalcy.

There is one common theme that was evident: Agriculture policy plays a very important role in the economic and social lives of a majority of the people and is a sector suffering in every case from hostilities, but also serious neglect, whether it is under-investment, poor policies or exploitation.

As I met with many of the agriculture leaders and university presidents, and even the farmers in Iraq, several things emerged as important next steps:

First, they are in desperate need of information. They feel as if they have been left behind in learning about the kinds of changes that have taken place in every sector, especially agriculture. They want more extension, teacher exchanges, and student exchanges. They do not have use of the Internet, which in many instances precludes them from getting the latest information on research, practices and technology.

Regarding U.S. trade, Iraq was once a significant commercial market for U.S. farm products, with sales approaching \$1 billion in the 1980s. It has the potential once again to be a significant commercial market as its population with growing incomes enriches its diet. USDA is active in assessing ways to establish export credit guarantee programs to help U.S. exporters

re-enter this market at the right time. The Export-Import Bank's Board of Directors has approved a \$500 million short term insurance facility to support trade financing from the Trade Bank of Iraq, which could include agricultural products. In the interim, USDA and U.S. agricultural groups have sponsored technical seminars with Iraqi buyers to help familiarize them with our products. In May, a group of Cochran fellows from Iraq will be visiting the United States. Rice and wheat industry associations will help sponsor their visit.

In Afghanistan, people are tired of years of repression, exploitation, Soviet-era rule, factional fighting of warlords, and the Taliban. They want an opportunity for stability and to develop their lives the best way they can.

Our PL-480 program is donating soybean oil with proceeds earmarked for rural development projects. The first group of Afghan women sponsored by the Cochran program will be coming to America in June. USDA has employees on the ground to help in the Afghan reconstruction effort. Short-term advisors are being sent to assist the Afghan Conservation Corps in implementing soil, water, and forestry conservation projects. This puts money into the hands of the rural population that desperately needs income.

In both Iraq and Afghanistan, USDA has and will continue to play an important role in helping citizens rebuild their agricultural economies, improve their domestic capacity to produce and buy food and agricultural products, and help U.S. exporters sell and market U.S. product into these markets. In both countries, our government is working hard to foster change that will benefit not only Iraq and Afghanistan, but America and the rest of the world.

Creating Opportunities for the Future

I have talked today about the many fronts we are working on to continue to improve export opportunities for the American food and agriculture sector. To emphasize the importance of our agricultural trade, consider this:

- The United States is the world's largest agricultural exporter.
- Agriculture is two times more dependent on trade than other sectors in the U.S. economy. We estimate about 27 percent of farm sales will come from exports this fiscal year.
- Long term, exports are growing at twice the rate of domestic sales.
- Every dollar of exports creates \$1.60 in supporting economic activity – and over 90 percent of U.S. exporters are small firms, which employ three of every four workers in America.
- With 96 percent of the world's consumers living outside the United States, access to international markets for U.S. agricultural products is all the more critical.

Thank you for providing me with the opportunity to talk about foreign trade with you today. Ambassador Zoellick will complete the picture with specifics on the status of WTO and other FTA negotiations. I look forward to your questions.

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